



April 29, 2002

MR. PRESIDENT, MR. SPEAKER AND HONORABLE MEMBERS OF THE LEGISLATURE:

Presented, herewith, is my budget recommendation for the fiscal year beginning July 1, 2002. It has been prepared in accordance with the constitution and applicable statutes, and provides financial and program information to assist you in making informed decisions as you consider appropriations for the coming year. In accordance with Article VII, Section 11 of the constitution, I will also prepare the original appropriations bill in conformity with this document.

Over the course of my administration, we have faced many difficult budget-building scenarios. However, the development of this executive budget has presented the most daunting challenge yet. Of course, Louisiana is not the only state facing budgetary challenges. For many states, those budgetary crises are already affecting current year operations. However, while other states are at the point of dipping into rainy day funds, raising taxes, allocating tobacco settlement monies to balance the budget and cutting vital services, we in Louisiana, because of prudent financial management by my administration and the legislature and precautionary measures such as the executive branch hiring freeze that I ordered in February 2002, should ride out the current fiscal year without significant impact to services. Instead, our challenges for FY 2002-2003 lie in three critical areas: the perennial revenue shortfall related to Louisiana's unstable revenue base, made worse by the recent economic downturn and the looming expiration of several temporary taxes; the growing demands for and costs of state services; and the need to sustain and selectively increase our investments in vital areas such as education, economic development, and infrastructure.

For FY 2002-2003, all major revenue sources are either relatively flat or declining. As you know, several temporary revenue sources are due to expire in FY 2002-2003. These include suspensions of exemptions to the sales tax base (the one penny and three penny exemptions) and the four-cents per pack cigarette tax, suspension of the education income tax credit, as well as the individual income tax limitation on excess itemized deductions and automobile rental excise tax. Even if we assume renewal of all taxes, the revenue forecast for FY 2002-2003 is only \$52 million more than the forecast for the current fiscal year.

Despite this bleak revenue outlook, demands for state resources continue to rise in many areas. Some increased expenditures are mandatory. For example, the constitutionally mandated increase in the Minimum Foundation Program (of which 50 percent in the current resolution is dedicated to teacher pay) and state debt service together require \$98.4 million in FY 2002-2003. Revenue replacement for programs funded by the Louisiana Fund will total \$34.8 million due to the placement in trust of all the revenues earned when the state "securitized" a portion of our tobacco settlement last year. Other expenditure needs reflect socioeconomic and market influences as well as increased demand for state services. In FY 2002-2003, annualized and inflationary costs of state government equal \$115 million. As the costs of medical care and pharmaceuticals climb, we must remember that Louisiana's current Medicaid budget contains \$78 million in one-time funding. Altogether, we face a \$168 million shortfall for FY 2002-2003 Medicaid needs. The cost of housing state inmates in local facilities is expected to rise by \$6.6 million. In addition, the state must provide an additional \$4.7 million to implement the mental-medical health component of our settlement with the U.S. Department of Justice regarding the state's juvenile justice facilities. Further, in the wake of September 11<sup>th</sup>, Louisiana must do its part to ensure Homeland Security. Still, other budgetary demands are driven by the need to address issues such as the financial stability of employee health insurance programs, the state's

self-insurance program, and departments in which the costs of vital programs have outstripped the fees that support those programs.

Ultimately, my budget development team began the FY 2002-2003 budget development process facing a potential shortfall of nearly \$985 million when comparing anticipated revenues to known needs. Moreover, these budget figures did not include the funds needed to preserve and build upon the investments we have already made in education, economic development, and infrastructure.

At a time when the state is faced with insufficient resources to meet all service, security, and investment demands, our choices lie between using all available revenues to plug some of the bigger budgetary holes or investing at least a part of those revenues in new initiatives that will maintain and build upon the gains that we have already achieved together. My decision was to stay the course - to continue efforts to shrink government bureaucracy, to prudently manage budgetary shortfalls, and to take on a few new initiatives that have a low impact on the FY 2002-2003 operating budget but offer remarkable returns in multiple areas.

Once again, I am challenging our state administrators and program managers to cut costs, streamline service delivery, and maximize the use of technology. As part of this agency belt-tightening, I am asking state agencies to absorb the costs of inflation, retirement, and employee merit increases. Further, to avoid a possible "death spiral" effect in the State Employees Group Benefits Program and to provide a more competitive package of benefits to state workers, I am asking state departments to pick up an estimated 17% increase in premiums for active employees as well as the cost of increasing the state share of group insurance premiums to 65%.

Since salaries typically make up most of the costs of state services, we are converting the vacant positions frozen by my executive order during FY 2001-2002 into permanent position reductions and asking state agencies to cut even more. Overall, this executive budget recommends elimination of 2,193 positions in FY 2002-2003.

Because \$593 million in temporary revenues are set to expire in FY 2002-2003, my executive budget includes not only base budget recommendations balanced to the official revenue forecast, but also supplementary recommendations based on the renewal by the legislature of those temporary sources. You will see that the expenditure items contingent upon these tax renewals are broad-based and inclusive of most state agencies. To maintain overall budget priorities, these supplementary recommendations include some existing programs and activities as well as some new initiatives. Wherever possible, we attempted to align items contingent upon supplementary recommendations with appropriate, related sources of supplementary revenue. For example, part of the TOPS program is contingent upon the renewal of the temporary suspension of the education tax credit; in this way, those who benefit from TOPS would help pay for TOPS through the tax credit suspension.

Guided by *Louisiana: Vision 2020*, the state's economic development master plan, you and I have worked together over the last few years to craft "investment" budgets focused on areas that yield the greatest return on taxpayer dollars. Through those investments, we have made significant progress. For example:

- In K-12 education, Louisiana has made gains in every indicator of student achievement since 1998. Louisiana's education accountability program was recently ranked 4<sup>th</sup> best in the nation. We are identifying and rewarding those public schools that are succeeding; and we are identifying and helping those public schools that are in trouble. Over the last six years, we have increased average teacher pay in Louisiana by \$9,500 – or 35 percent. We are now closer to the SREB average than at any other time in recent history. And we are making progress to ensure every classroom has Internet access.

- The Louisiana School Accountability Program clearly shows that we are on the right track. Test scores on both the LEAP 21 and Iowa Tests are improving. In the first complete school improvement cycle, 93 percent of Louisiana's public K-8 and “combination” schools improved and nearly 70 percent met or exceeded their two-year growth targets.
- In higher education, thousands of Louisiana students are qualifying for TOPS tuition assistance. We are building a network of community colleges and reinventing our technical college system. Since FY 1995-1996, we have secured 1,301 endowed chairs and professorships at Louisiana colleges and universities.
- We have implemented a \$25 million university information technology initiative that will build Louisiana's capacity to support technology-intensive enterprises and help diversify and transform the state's economy. Our investments in gene therapy, including a research consortium and LSU/Tulane partnership, as well as new clinical research labs and incubator labs at the Pennington Biomedical Research Center will establish Louisiana as a premier site for research, spur development of biotechnology enterprises, and ultimately generate health care advances that will benefit all Louisianians.

Nonetheless, we continue to witness an alarming outflow of Louisiana's best and brightest, as they seek economic opportunities and an enhanced quality of life elsewhere. This “out-migration” began nearly two decades ago but we must be vigilant in our efforts to reverse it. Louisiana can no longer rely on good families, good food, good fun, and good fishing to keep our children at home. As I have said many times before, Louisiana simply does not have the financial resources to spend our way off the bottom of competitive rankings among states. Instead we must continue to selectively target those areas that will yield the greatest return on investment - education, economic development, and infrastructure. Therefore, even in the face of difficult budget challenges, I have maintained my commitment to this philosophy, and I have stayed the course in this budget submission.

As a result, this budget recommendation contains the following investments in K-12 education:

- \$6.7 million for the School and District Accountability Program, to help schools that have gone into corrective action.
- \$4.7 million to open two new charter schools.
- An additional \$960,000 for the testing component of the accountability program, including the expansion of web-based practice testing to help students prepare for high-stakes tests.
- \$500,000 for the Virtual School Algebra I Pilot, which leverages \$1.25 million in 8g funds from the Board of Elementary and Secondary Education. Through the collaborative efforts of the Department of Education and Board of Regents, this project will utilize the latest in technology to bring high quality, whole-class algebra instruction to rural and urban school systems that lack certified teachers.
- In addition to the \$22.6 million (50 percent) increase in the Minimum Foundation Program going directly to teacher pay raises, \$12 million for another school support personnel pay supplement is included in my supplementary budget recommendation.
- In capital outlay, there are \$15 million in nonrecurring funds for Classroom-Based Technology to continue our efforts to equip classrooms with computers and Internet access.

For higher education, my budget recommendation includes:

- \$15 million from one-time revenues to continue funding for library and scientific acquisitions at state colleges and universities.
- \$15 million (\$4 million recurring and \$11 million nonrecurring) for the university-based Regional Economic Development Initiative, for master plan implementation, and for campus budget stabilization at various four-year universities.
- \$8.6 million to keep pace with the rapid enrollment growth at our community and technical colleges.
- \$2 million for the Brain Gain Initiative to keep high achieving students from leaving Louisiana for college and to attract out-of-state students with extraordinary achievements to our universities.
- \$800,000 for a Quality Teacher Recruitment and Retention Program to help bring individuals from non-traditional teaching backgrounds into the classroom where they can become certified in shortage areas like math, science, and foreign languages.

In this tight budget year, we must allocate limited resources in targeted ways that meet two critical needs of Louisiana: better health care and a more balanced economy. We must also spend these resources in areas that will help us maintain our gains in education and provide a rapid return on our investment. This is a common sense approach to planning for the future. One area for investment that can meet all these goals is the biosciences. By providing approximately \$187 million for a four-part Bioscience Initiative, we will be able to invest in our medical schools and research institutions, provide equipment for our public hospitals, recruit world-class faculty, and engage Louisiana fully in this important growth area of the New Economy.

- Part I, the Health Research and Clinical Care Initiative, would be funded by a \$150 million bond issue, with no overall cost to this year's budget and a future annual cost of \$15 million to support the \$150 million in bonds. This initiative comprises three components:
  - a \$70 million Capital Challenge Fund that will be used to renovate and build needed medical facilities, including the newly established LSU/Tulane Cancer Research Consortium and the Center for Disease Prevention and Management at LSUMC-Shreveport.
  - a \$50 million Equipment Fund that will be used to place state-of-the-art equipment throughout the LSU hospital system.
  - a \$30 million Research Revolving Fund that will be used as seed capital to attract world-class researchers. Funds will be constantly replenished through contract research awards, intellectual property rights and royalties.
- Part II is the Neurobiotechnology Program of Louisiana, which will be funded by \$3 million in capital investment and \$3 million in recurring funds. This program will be a trans-university research alliance among LSU Health Sciences Center-New Orleans, Tulane Health Sciences Center, and LSU Health Sciences Center-Shreveport to study Alzheimer's disease, head injury, and drug addiction. Through creation of start-up companies and retention of patents, this program will greatly benefit the state's economy.
- Part III is the Biosciences Research Initiative, which will be funded through \$10 million in capital investment and \$6 million in recurring funds. Of the total \$16 million investment, \$9 million (\$5 million capital investment and \$4 million recurring) will go to LSU A&M College and the LSU Agriculture Center to pay

for graduate stipends, needed renovations, and research. \$1 million in recurring funds will be used for the Center for Structural Biology and Proteomics at LSUMC-New Orleans, which will focus primarily on research in functional genomics and bioinformatics. \$6 million (\$5 million in one-time funds and \$1 million in recurring funds) will go to the Pennington Biomedical Research Center where research will examine how nutrients affect the body (a key area in determining causes of disease). This will complement other research initiatives and aid in achieving a “critical mass” of biosciences experts.

- Part IV is a \$15 million capital outlay investment in wet lab business incubators to be located in Shreveport, Baton Rouge, and New Orleans. Wet labs provide the necessary infrastructure for supporting and recruiting start-up companies in three of the *Vision 2020* clusters - biotechnology, environmental, and food technologies. Without wet labs, many in-state discoveries are licensed out-of-state and developed there. Each of Louisiana’s wet labs is expected to create 180 new jobs by the establishment of 20 companies. We will build the wet lab in Shreveport this year and plan and design the other two.

Together, we have modernized Louisiana’s economic development efforts by reorganizing the Department of Economic Development and staffing it with a full regiment of cluster and service professionals. Now, we must give that department the tools it needs to move Louisiana’s economy forward. Toward that end, the department has been exempted from gubernatorial position reductions in FY 2002-2003. To enable the department to move at the speed of business, I have included \$25 million in capital outlay from one-time funding for the Louisiana Opportunity Fund. This fund will allow the state to respond more quickly to companies considering location or expansion of facilities in Louisiana. Currently, the state must wait until the legislature is in session to get money appropriated for projects. This fund would close the competitive gap with other states that are able to fund infrastructure needs in several weeks because their legislatures appropriated funding on the front end. Further, my executive budget recommendation includes \$897,600 for the Economic Development Grants Match Program, a fund that will allow noncompetitive communities and institutions access to economic development grant dollars that they would otherwise be unable to access without matching support.

In addition, funding is directed toward specific new projects that support economic development and infrastructure. These include:

- \$1.5 million for the Office of Public Health Central Laboratory Facility. This \$18 million facility will be owned by the UNO Research and Technology Foundation. Through a cooperative endeavor agreement between the state and the foundation, the state will appropriate \$1.5 million annually for lease payments to occupy the facility. The foundation will incur the debt to build the facility.
- \$7 million to construct, equip, and operate the Advanced Maritime Technology Applications Center (AMTAC) and the Career Skills Development and Training Center (CSDTC). This includes expansion, replication, and upgrading of the 1997 UNO/Northrop Grumman Maritime Technology Center of Excellence with two facilities totaling 400,000 sq. ft. AMTAC will house cutting edge hardware and software and simulation-based design facilities, plus advanced workstations for up to 1,000 engineers and information technology professionals. The CSDTC will have state-of-the-art skills training and education facilities for classroom, virtual and real-time/hands-on training and career development planning and assistance. The center will be jointly staffed by Delgado Community College, Louisiana Technical College, University of New Orleans, and Ship Systems and is expected to train 4,000 students and employees per year. The funding strategy is to extend the current cooperative endeavor between the state and UNO and fund at \$7.2 million per year for 20 years. UNO, through its Research and Technology Foundation, will build the facilities, acquire hardware and software, equip and operate AMTAC, and build a one-story CDSTC facility at a total cost of \$63 million. Additional funds will come from federal and private sources.

- \$2.75 million in economic development sports-related enhancements. This includes \$1,750,000 for the transition of the NBA's Charlotte Hornets to New Orleans and \$1,000,000 for the Greater New Orleans Sports Foundation (GNOSF) to host two of the nation's premier sporting events, the 2002 NCAA Women's Volleyball and the 2003 NCAA Men's Final Four Basketball Championships. These two events will enable the GNOSF to continue its mission of generating positive media exposure for the city and the state, creating opportunities for new visitors, contributing to the diversification of the city and state economy, and improving the quality of life for residents.
- \$7 million in nonrecurring capital outlay for the National Center for Advanced Manufacturing (NCAM). This project will have a significant economic impact on Orleans Parish and surrounding parishes by facilitating the development of advanced materials composite for large-scale structures. The development of this project will also meet objectives of *Vision 2020* by increasing university and private sector research and development in the targeted, advanced materials technology area.
- \$8 million for rural parish road funding.
- \$3 million for rural bridge funding.
- An increase of \$3 million in the Rural Development Fund, to bring total funding to \$9.8 million.
- An additional \$2.1 million for the seventh year of the eight-year plan to improve state parks. This enhanced funding is provided for staff, maintenance and operations of: 16 new two-bedroom cabins, 2 new four-bedroom cabins, a group camp, and pool at Lake D'Arbonne State Park; the new Visitor Center at Audubon State Historic Site; 4 cabins at the new Poverty Point Reservoir State Park; and 17 new two-bedroom cabins, 2 new four-bedroom cabins, and a group camp at Caney Creek Lake State Park.

Poverty reduction and increased education are central to my plan for preventing welfare dependency, and we have successfully transformed our TANF program from one focused almost entirely on providing cash assistance to one focused on fighting poverty and promoting independence from government services. Specifically, my TANF package calls for \$60.25 million in education and literacy initiatives for at-risk children and families, \$22 million for skills training and wage advancement for low-income parents, and \$36.6 million for family stability services such as emergency housing, substance abuse and domestic violence services for low-income families. Within this plan, an additional \$17 million to the investment in early childhood education will allow significantly more low-income children to be served in addition to maintaining our current investment of \$10 million for skills training and wage advancement opportunities for low-income parents.

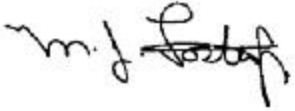
My FY 2002-2003 budget recommendation also addresses public safety and security by including:

- \$7.7 million for Homeland Security, with: \$2.4 million for the Louisiana State Police (including \$1 million for enhanced security for the Capitol Park); \$1.1 million for the state military; and \$4.2 million for the Department of Health and Hospitals.
- \$1.2 million for the Victim Information and Notification Everyday (VINE) System in the Louisiana Commission on Law Enforcement. Of the \$1.2 million total cost, \$1 million in nonrecurring setup cost is included in capital outlay and the remaining \$200,000 is included in my executive budget recommendation. The system notifies crime victims about changes in offenders' custody status.

To achieve the long-term advances and improvements that will make Louisiana a place where people want to live, work, and build a family and future, we must make difficult decisions today. We must find a way to reduce the costs of state services and even eliminate some in order to continue strategic investments in priority areas. We must continue to make investments in our priority areas; we cannot turn back the clock even as we face difficult challenges. That is the challenge we share as we work together to pass an appropriations bill that balances both the immediate needs and long-term goals of our state. I ask you to stay the course with me.

I look forward to working with you and, as always, my staff and I stand ready to assist you in any way possible as you consider this budget.

Sincerely,

A handwritten signature in black ink, appearing to read "M.J. Foster, Jr.", with a stylized flourish at the end.

M.J. "Mike" Foster, Jr.

# Acknowledgments

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